

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7412

BILL NUMBER: HB 1862

DATE PREPARED: Jan 30, 2001

BILL AMENDED: Jan 30, 2001

SUBJECT: Energy Assistance Contingency Fund.

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FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill creates the Energy Assistance Contingency Fund. The bill appropriates heating fuel sales tax revenue to the fund. The bill provides that the Division of Family and Children shall administer the fund. The bill provides that the fund shall be used for low income home energy assistance and low income home energy efficiency measures. The bill allocates the fund between energy assistance and energy efficiency.

Effective Date: July 1, 2001.

Explanation of State Expenditures: *Department of State Revenue:* The bill could require a number of changes related to the collection and administration of sales tax on natural gas and heating oil. Currently, aside from the sales tax collected on certain motor fuels, sales taxes are not identifiable by the product sold. The bill would require the Department to make the administrative changes necessary to track and separate sales tax revenue collected on the sale of natural gas and heating oil from other sales tax revenue. It is estimated that these changes will cost the Department less than \$50,000.

Auditor of State: The bill may require the Auditor of State's office to make administrative changes. Any costs associated with these changes are expected to be minimal and to be covered using existing staff and resources.

Division of Family and Children: The Home and Community Services Section within the Division of Family and Children would be responsible for the administration and distribution of any funds collected in the Energy Assistance Contingency Fund. While this bill could increase the number of households served by the Division, it is expected to have a negligible administrative impact. The bill provides that a percentage of the revenue collected may be used for administrative costs. (See Explanation of State Revenues below).

Explanation of State Revenues: This bill will effectively transfer the General Fund portion of any sales tax

revenue collected on natural gas and heating oil which is *above* the average yearly amounts distributed to the state General Fund between FY 1998 and FY 2000 to the Energy Assistance Contingency Fund, a fund created by this bill. As a result of this transfer, **this bill is estimated to reduce state General Fund revenue by \$4.4 M in FY 2002 and \$5.1 M in FY 2003.**

Based on consumption data and price projections from federal sources, it is estimated that the sales tax on commercial and residential sales of natural gas and heating oil will generate \$73.8 M in FY 2002 and \$74.8 M in FY 2003. Under current law, *all* revenue from the sales tax on heating oil and natural gas sales is distributed, as is all revenue from Gross Retail (Sales) and Use taxes, in the following manner: the State General Fund (59.03%), the Property Tax Replacement Fund (40.00%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%). This bill would require the Department of State Revenue to transfer 59.03% of the sales tax collected on commercial and residential sales of natural gas and heating oil to the Auditor of State. This amounts to \$43.5 M in FY 2002 and \$44.2 M in FY 2003.

Based on data obtained from the U.S. Energy Information Agency, between FY 1998 and FY 2000, commercial and residential sales of natural gas and heating oil generated an average of \$66.3 M in state sales tax revenue. The state General Fund received 59.03% of the amount, or \$39.1 M ($\$66.3 \text{ M} \times 59.03\% = \39.1 M) on average.

Since the General Fund portion of the sales tax on residential and commercial sales of natural gas and heating oil is estimated to generate approximately \$43.5 M in FY 2002, approximately \$4.4 M ($\$43.5 \text{ M} - \$39.1 \text{ M} = \4.4 M) would be affected by this proposal. Instead of being distributed to the state General Fund, the \$4.4 M in revenue would be distributed to the Energy Assistance Contingency Fund. Other funds receiving sales tax revenue are **not** affected by this proposal.

Under current law, sales tax revenue is distributed to the General Fund as well as the other funds upon the Department of State Revenue's receipt of the remittance. This bill would delay the deposit of revenue of the amount collected on natural gas and heating oil until the beginning of the proceeding fiscal year. Under this bill, on or before the end of each fiscal year, the Auditor would then transfer any revenue in excess of the \$39.1 M average to the Energy Assistance Contingency Fund. The Auditor's Office would transfer the remaining \$39.1 M to the state General Fund on July 1 of the proceeding fiscal year.

Administration of the Energy Assistance Contingency Fund: This bill would make available approximately \$4.4 M in FY 2002 and \$5.1 M in FY 2003 for energy assistance programs to households at or below 200% of the federal poverty level. The Division of Family and Children estimates that there are approximately 635,000 households in Indiana that would be eligible to receive assistance through programs funded, in part, by the Energy Assistance Contingency Fund. Under this proposal, 25% of the revenue in the Fund would be used to fund home energy efficiency measures and 75% would be used for low-income energy assistance. The proposal would allow the Division, or a grantee responsible for administering the program, to use a portion of the Fund to cover administrative costs.

The Energy Assistance Program is administered by the Housing and Community Services Section of the Division of Family and Children. The Energy Assistance Program is currently funded by the Low-Income Home Energy Assistance Program (LIHEAP) federal block grant (\$28.1 M) and funds appropriated from the state Oil Overcharge accounts (\$9.2 M). In 1999, the program provided assistance to 142,463 households at or below 125% of the federal poverty level. Of these households, 109,628 received some type of heating assistance, 1,569 households received weatherization assistance, and 31,266 received assistance to help pay

cooling costs.

Background information (Natural Gas and Heating Oil): Future sales tax collections on the sale of fuel are dependent upon the price of the fuel and the quantity consumed by Indiana residents. The residential portion of the estimate on natural gas sales is based on the fuel sales to Indiana consumers obtained from two distinct methods. The first used past expenditure data from the Bureau of Labor Statistics' *Consumer Expenditure Survey* to project households' future expenditures on home energy. The second method used current consumption data and price projections supplied by the U.S. Department of Energy, Energy Information Agency (EIA), to estimate future sales. Commercial sales of natural gas and commercial and residential sales of heating oil used past consumption data and future price projections obtained by the EIA. It is important to note that fluctuations in the price of fuels will directly influence the amount of sales tax collected.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Housing and Community Services Section, Division of Family and Children; Auditor of State.

Local Agencies Affected:

Information Sources: Department of State Revenue; Tom Reel, Housing and Community Services Section-Division of Family and Children, 232-7098; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; U.S. Census Bureau; U.S. Department of Energy, Energy Information Agency; *December 19, 2000, Revenue Forecast Update*.